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Niagara Structural Steel



annual report 1979



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**NIAGARA STRUCTURAL STEEL COMPANY LIMITED
AND SUBSIDIARY COMPANIES**

Head Office

Smith & Petrie Streets, St. Catharines, Ontario

Subsidiaries

Niagara Structural Steel (St. Catharines) Limited
Norsteel Limited
Northern Steel Co. Ltd.
Norforge Inc.
Kenarin Steel Sales Corp.
415572 Ontario Inc.

Directors

B.A. Brown
M.E. Fedryna
M.J. Howe
R.A. Kennedy
H.W. Olch, Q.C.
H.P. Tomarin

Officers

H.P. Tomarin, Chairman of the Board and Chief Executive Officer
R.A. Kennedy, President and Chief Operating Officer
M.E. Fedryna, Vice-President Material Services
S.O. Nicholls, R.I.A., Vice-President Finance
S.L. Tomarin, Executive Assistant to the Vice-Presidents
S.A. Tomarin, Assistant to the President
H.W. Olch, Q.C., Secretary
P.J. Kent, Assistant Secretary

Auditors

Ernst & Whinney, Toronto, Ontario

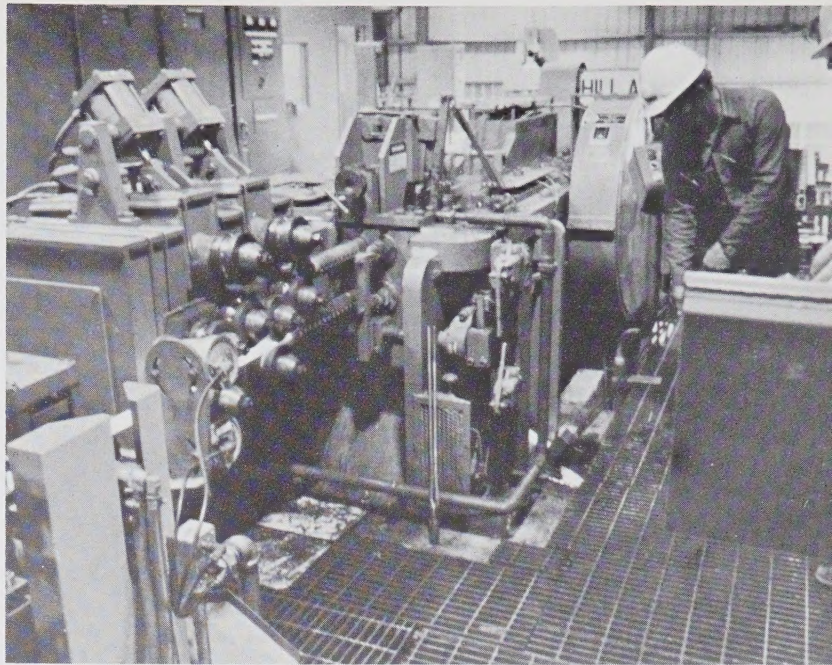
Solicitors

Olch, Torgov, Cohen & Kent, Toronto, Ontario

Registrar and Transfer Agent

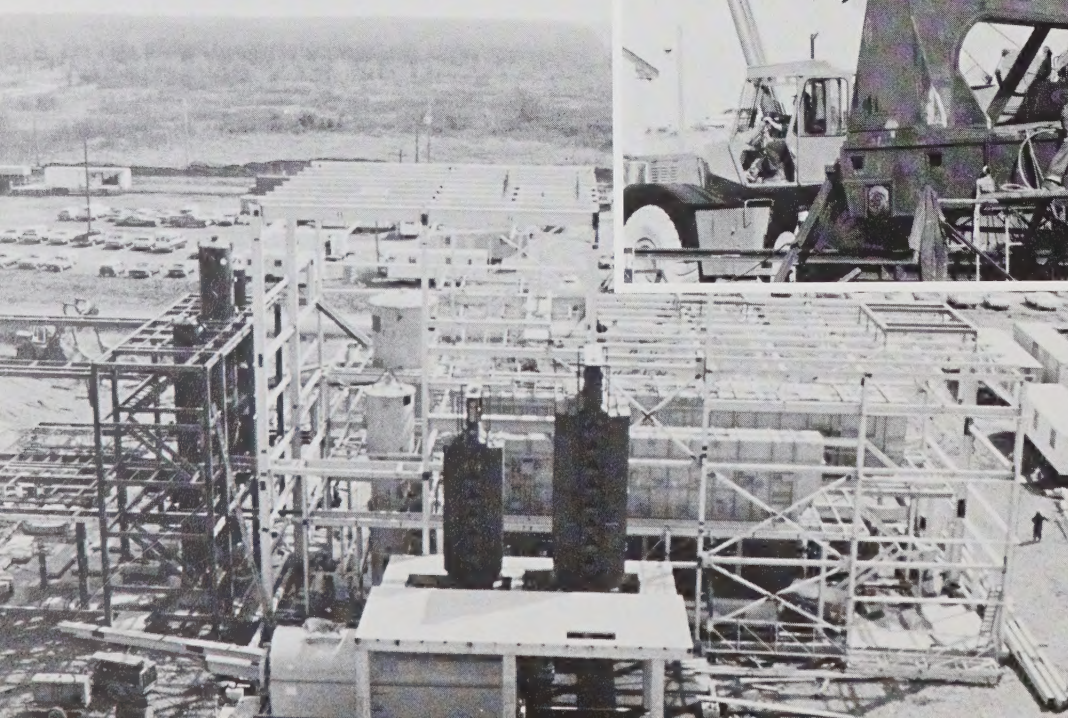
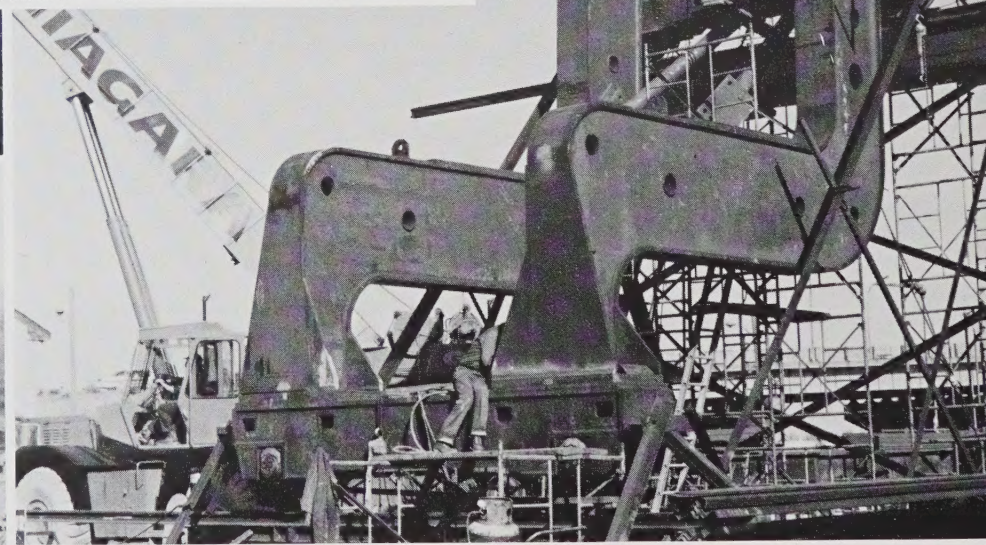
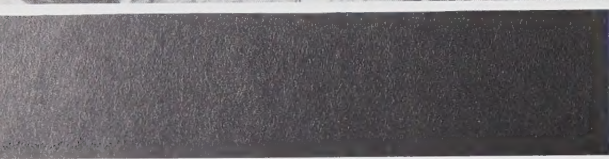
The Canada Trust Company, Toronto, Ontario

First Preference Shares, Series A
Listed — Toronto Stock Exchange



*Manufacture of Grinding Balls at our Norforge operation —
Sept-Iles, Quebec.*

RECENT PROJECTS



REPORT TO THE SHAREHOLDERS

Your Directors herewith submit the Annual Report of your Company for fiscal year ended August 31, 1979 including financial statements and report of auditors.

Net loss incurred for the period under review is \$1,186,007 on net sales of \$43,032,323 (- \$2.49 per common share) compared with net profit of \$517,858 (restated) on net sales of \$28,309,398 (\$1.00 per common share) for fiscal 1978.

Losses were confined to fabrication and erection at St. Catharines and steel plate fabrication at Grimsby. Profits from steel service centres at St. Catharines, Sept-Iles, Quebec and Orchard Park, New York and from the grinding ball mill at Sept-Iles were not sufficient to offset fabrication and erection losses.

Significant factors contributing to the net loss for the year:

- Niagara's activities had delivered average after-tax profits of \$800,000 per annum during fiscals 1974 — 1978. In 1979 spending constraints on the part of heavy industry and governments, general efforts to "cool" the economy and high interest rates, all contributed to the deferral of capital works and the consequent development of over-capacity;
- curtailment of industrial expansion forced Niagara to seek bridge contracts in the United States and Western Canada. Unfamiliar design specifications, late deliveries of materials and impossible weather conditions combined to clog production lines and return extremely disappointing results;
- start-up costs and heavy depreciation for the grinding ball mill at Sept-Iles together with rising interest rates and capital expenditures at St. Catharines and Grimsby all had adverse effects.

A heavy increase in sales is forecast for 1980. To meet this challenge and to ensure elimination of the weaknesses which emerged in 1979 extreme selectivity will be exercised in acceptance of contracts. Capital expenditures and inventories will be closely monitored.

The Norsteel service centre at Sept-Iles continues to deliver solid results. The Norforge division, also at Sept-Iles, began to produce at capacity in August, 1979. Finally, the new Kentom division, engaged as exclusive distributor for the U.S.A. of Atlas Steels products in bulk, although active only since June, 1979 is already developing volumes which confirm our forecast of substantially increased consolidated annual sales.

Niagara is confident that fiscal 1980 will signal a decade of solid profitability. This has already had partial verification by the unaudited 1980 first quarter results indicating on a consolidated basis, after-tax earnings of \$332,454 on sales of \$17,476,541 (.68¢ per common share).

The Directors appreciate the extra efforts of management and staff through a difficult and trying year.

ON BEHALF OF THE BOARD OF DIRECTORS.



Chairman of the Board
and Chief Executive Officer



President and
Chief Operating Officer

CONSOLIDATED BALANCE SHEET
NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

ASSETS	August 31	
	1979	1978
CURRENT ASSETS		
Cash	\$ 251,085	\$ 10,648
Accounts receivable less allowance for doubtful accounts of \$260,772 (1978 — \$342,224)	11,532,447	6,184,761
Income taxes receivable	21,665	20,229
Incentive grant receivable	-0-	347,021
Unbilled contract revenue	1,852,522	3,037,606
Inventories of steel, work in process and sundry materials at the lower of cost and net realizable value	9,469,570	7,003,575
Current portion of agreement of sale	3,831	11,335
Prepaid expenses	56,286	48,445
TOTAL CURRENT ASSETS	23,187,406	16,663,620
PROPERTY, PLANT AND EQUIPMENT	8,139,525	6,843,642
Less — allowances for depreciation	2,316,496	1,873,016
	5,823,029	4,970,626
OTHER ASSETS		
Long-term incentive grant receivable	93,450	86,755
Agreement of sale, less current portion	-0-	3,831
Incorporation and issue expenses less amortization	8,000	12,000
Plant start-up costs	216,208	233,580
	317,658	336,166
	\$29,328,093	\$21,970,412

See notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders
Niagara Structural Steel Company Limited

We have examined the consolidated balance sheet of Niagara Structural Steel Company Limited and subsidiary companies as at August 31, 1979 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at August 31, 1979 and the results of their operations and changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 12, 1979

Ernst & Whinney
Chartered Accountants

LIABILITIES AND SHAREHOLDERS' EQUITY

	August 31	
	1979	1978
CURRENT LIABILITIES		
Bank Loans	\$ 8,027,810	\$ 5,158,424
Accounts payable and accrued liabilities	11,065,562	5,158,601
Income taxes payable	1,067,855	1,840,122
Deferred contract revenue	244,210	543,711
Current portion of term bank loan	341,300	100,000
TOTAL CURRENT LIABILITIES	20,746,737	12,800,858
TERM BANK LOAN	3,668,700	3,100,000
DEFERRED INCOME TAXES	628,525	509,825
	25,043,962	16,410,683
SHAREHOLDERS' EQUITY		
Capital stock:		
First preference shares with a par value of \$30 per share, issuable in series:		
Authorized 44,979 shares;		
Issued 13,359 (1978 - 13,954)		
Series A 6-1/2% cumulative shares redeemable at \$31.50	400,770	418,620
Common shares without par value		
Authorized 1,000,000 shares;		
Issued 486,775 shares	1,041,637	1,041,637
Excess of net asset value of subsidiary over purchase price of shares at date of acquisition	193,897	193,897
Contributed surplus	34,661	30,899
Purchase fund for Series A first preference shares	508	14,596
Retained earnings	2,612,658	3,860,080
	4,284,131	5,559,729
	\$29,328,093	\$21,970,412

APPROVED ON BEHALF OF THE BOARD:

H. P. Tomarin, Director**R. A. Kennedy**, Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended August 31	
	1979	1978
Balance at beginning of year:		
As previously reported	\$3,979,054	\$3,509,080
Adjustment for interest on income tax reassessment ...	(118,974)	(53,274)
As restated	3,860,080	3,455,806
Add: Net income for year	-0-	517,858
Transfer from purchase fund for Series A preference shares	14,088	23,990
	<u>3,874,168</u>	<u>3,997,654</u>
Deduct: Net loss for year	1,186,007	-0-
Dividends paid:		
Preference shares ...	26,947	28,219
Common shares	48,556	97,355
Transfer to purchase fund for Series A preference shares ...	-0-	12,000
	<u>1,261,510</u>	<u>137,574</u>
 BALANCE AT END OF YEAR	 <u>\$2,612,658</u>	 <u>\$3,860,080</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended August 31	
	1979	1978
Net sales	\$43,032,323	\$28,309,398
Costs and expenses:		
Cost of sales and operating expenses	43,350,111	26,651,451
Depreciation	466,753	309,298
Interest on long-term debt	327,315	139,270
Interest on short-term borrowings	733,608	360,346
	<u>44,877,787</u>	<u>27,460,365</u>
 INCOME (LOSS) BEFORE INCOME TAXES	 (1,845,464)	 849,033
Income taxes:		
Current	(778,157)	249,500
Deferred	118,700	81,675
	<u>(659,457)</u>	<u>331,175</u>
 NET INCOME (LOSS)	 <u>\$(1,186,007)</u>	 <u>\$ 517,858</u>
Earnings (loss) per common share	<u>\$ (2.49)</u>	<u>\$ 1.00</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended August 31	
	1979	1978
SOURCE OF FUNDS		
Net income (loss)	\$ (1,186,007)	\$ 517,858
Add items not requiring an outlay of working capital:		
Depreciation	466,753	309,298
Amortization of incorporation and issue expenses	4,000	4,000
Deferred income taxes	118,700	74,807
Amortization of plant start-up costs	32,038	-0-
TOTAL FROM (USED BY) OPERATIONS	(564,516)	905,963
Proceeds from incentive grants	33,474	433,776
Proceeds from disposals of plant and equipment	10,163	-0-
Reduction in agreement of sale.	3,831	11,335
Increase in term bank loan	910,000	1,800,000
	<u>392,952</u>	<u>3,151,074</u>
USE OF FUNDS		
Current portion of term bank loan	341,300	100,000
Plant start-up costs	14,666	233,580
Long-term incentive grant receivable	6,695	86,755
Purchase of plant and equipment and improvement to buildings ..	1,362,793	2,537,089
Dividends paid:		
— preference shares	26,947	28,219
— common shares	48,556	97,355
Cancellation of Series A preference shares	14,088	23,990
	<u>1,815,045</u>	<u>3,106,988</u>
 INCREASE (DECREASE) IN WORKING CAPITAL	 <u>\$ (1,422,093)</u>	 <u>\$ 44,086</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ 240,437	7,294
Accounts receivable	5,347,686	629,008
Income tax receivable	1,436	20,229
Incentive grant receivable	(347,021)	347,021
Unbilled contract revenue	(1,185,084)	961,522
Inventories of steel, work in process and sundry materials	2,465,995	1,144,439
Current portion of agreement of sale	(7,504)	725
Prepaid expenses	7,841	(96,534)
INCREASE IN CURRENT ASSETS	6,523,786	3,013,704
Increase (decrease) in current liabilities:		
Bank loans	2,869,386	2,039,133
Accounts payable and accrued liabilities	5,906,961	1,371,957
Income taxes payable	(772,267)	127,692
Deferred contract revenue	(299,501)	(569,164)
Current portion of term bank loan	241,300	-0-
INCREASE (DECREASE) IN CURRENT LIABILITIES	7,945,879	2,969,618
 INCREASE (DECREASE) IN WORKING CAPITAL	 <u>\$ (1,422,093)</u>	 <u>\$ 44,086</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTE A — INCORPORATION

The Company is incorporated under the laws of Ontario and conducts its operations in Canada.

NOTE B — ACCOUNTING POLICIES

Principles of Consolidation: During the year, subsidiary Kenarin Steel Sales Corp. (formerly Niasco Steel Ltd.) formed a wholly-owned subsidiary, 415572 Ontario Inc. (operating as Kentom Steel), which is incorporated under the laws of Ontario and conducts its operations, principally steel distribution, in the United States. The accompanying financial statements include the accounts of Niagara Structural Steel Company Limited and its subsidiary companies, all of which are wholly-owned.

Kenarin Steel Sales Corp. (formerly Niasco Steel Ltd.) and its wholly-owned subsidiary 415572 Ontario Inc. (operating as Kentom Steel)

Niagara Structural Steel (St. Catharines) Limited

Norsteel Limited and its wholly-owned subsidiary Norforge Inc. Northern Steel Co. Ltd.

All significant intercompany transactions have been eliminated on consolidation.

Basis of Accounting for Contract Profits: Profits from contracts are recorded based on the estimates of the percentage-of-completion method of accounting. Losses are provided for in full when known.

Unbilled contract revenue, included with current assets, represents the excess of contract costs and profits recorded over contract billings on specific contracts. Deferred contract revenue, included with current liabilities, represents any excess of contract billings over contract costs and profits recorded on other contracts.

Property, Plant and Equipment: Property, plant and equipment owned by one of the Company's subsidiaries, Niagara Structural Steel (St. Catharines) Limited, were appraised in 1962 at a depreciated value of \$1,439,547. The directors of that subsidiary company placed a value on these assets of \$1,428,697 and the excess of \$913,165 over depreciated net book value was recorded as part of the subsidiary's shareholder's equity.

Subsequent additions have been recorded at cost. All other property, plant and equipment have been stated at cost.

Major capital expenditures are capitalized, while costs of maintenance and repairs are charged to operations as incurred. Gains and losses on disposals of property, plant and equipment are recorded to operations as incurred.

Depreciation is provided on the straight-line method at rates previously determined by an independent firm of consulting engineers. These rates vary between 2.8% and 26.3% per annum.

Foreign Currency Translation: The Company's subsidiary, 415572 Ontario Inc. (operating as Kentom Steel) operates principally in the United States and maintains its accounting records and prepares its financial statements in United States currency. The accompanying consolidated financial statements, expressed in Canadian dollars include a translation of the subsidiary's United States currency accounting records and financial statements in accordance with generally accepted accounting principles. Assets, liabilities, revenues and expenses have been translated at the following rates of exchange:

1. Current assets and liabilities, at exchange rates prevailing at year end.
2. Fixed assets and capital stock at historical exchange rates.
3. Revenues, expenses and changes in non-current assets and liabilities at average rates in effect during the year.

Gains or losses on translation of foreign currency are recognized in income for the year in which they arise.

Incorporation and Issue Expenses: These costs are being amortized at the rate of \$4,000 per year.

Plant Start-Up Costs: These costs, incurred in connection with the Norforge production facility in Sept-Iles, Quebec, are being amortized over an estimated five-year period based upon production. Plant start-up costs charged to operations during the year amounted to \$32,038 (1978 - \$-0-).

Incentive Grants: Assistance relating to the acquisition of plant and equipment is accrued on the basis of expenditures made and is deducted from the cost of the related assets. Accordingly, depreciation charged to earnings is based on the net cost of the assets.

NOTE C — PROPERTY, PLANT AND EQUIPMENT

	August 31	
	1979	1978
Land and land improvements	\$ 596,268	\$ 481,382
Buildings	2,526,265	2,246,535
Machinery and equipment	5,016,992	4,115,725
	8,139,525	6,843,642
Allowances for depreciation	2,316,496	1,873,016
	<u>\$5,823,029</u>	<u>\$4,970,626</u>

NOTE D — AGREEMENT OF SALE

This amount represents the principal balance due on the sale of a building by a subsidiary pursuant to an agreement of sale, and is payable in monthly payments of \$1,000 which includes principal and interest at 6-5/8% per annum. Principal payments of \$3,831 (1978 - \$11,335) are due within one year and are included with current assets.

NOTE E — BANK LOANS

Bank loans included with current liabilities are payable on demand and are secured by accounts receivable and inventories, and by a demand debenture of \$1,250,000 consisting of a floating charge on all assets but subject in priority to debentures given to secure the term bank loans. Term bank loans of \$4,010,000 consist of a term bank loan of \$1,710,000 and a term bank loan of \$2,300,000.

The principal amount of the term bank loan of \$1,710,000 is repayable in fourteen consecutive semi-annual installments of \$70,000 each commencing February 28, 1980, with the balance then outstanding due and payable on February 28, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at a rate not to exceed one percent over the prime lending rate existing from time to time of the Company's general bankers. This term bank loan is secured by demand debentures of the Company and one of its subsidiaries for \$2,500,000 constituting a first fixed and floating charge on all assets owned by the Company and Niagara Structural Steel (St. Catharines) Limited, subject to these companies giving security on accounts receivable and inventories, in priority to these debentures, to secure bank loans payable on demand.

The principal amount of the term bank loan of \$2,300,000 is repayable in sixteen consecutive semi-annual installments of \$100,625 each, commencing November 29, 1979, with the balance then outstanding due and payable on November 29, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at one and one-quarter percent over the prime lending rate existing from time to time of the Company's general bankers. This term bank loan is secured by a mortgage bond of \$2,500,000 constituting a first fixed charge on all real estate owned by Norforge Inc. and a first floating charge on all other assets owned by Norforge Inc., subject to Norforge Inc. giving security on accounts receivable and inventories in priority to these debentures, to secure bank loans payable on demand. This term bank loan is guaranteed without limit, by Niagara Structural Steel (St. Catharines) Limited, subsidiary. At August 31, 1979 the prime lending rate of the Company's general bankers was 12-1/2%.

NOTE F — PRIOR PERIOD ADJUSTMENT

As a result of an income tax reassessment of subsidiary Niagara Structural Steel (St. Catharines) Limited applicable to the year ended August 31, 1976, interest of \$192,350 has been charged on unpaid balances. The Company has filed a notice of objection to this reassessment. The balance of retained earnings at August 31, 1978 has been restated to show a retroactive charge of \$118,974 representing the cumulative amount of interest charges as at August 31, 1978. A charge of \$65,700 is applicable to 1978 and cost of sales and operating expenses have been adjusted accordingly (previously reported as \$26,651,451) resulting in a reduction of earnings as previously reported and a corresponding reduction in earnings per share. A charge of \$53,274 is applicable to years prior to September 1, 1977 and has been charged to retained earnings at that date (previously reported as \$3,509,080). A charge of \$73,376 is applicable to 1979 and has been recorded accordingly. The comparative income taxes payable accounts have been adjusted to reflect this reassessment.

NOTE G — INCOME TAXES

Income taxes have been provided on the income shown in the financial statements. Taxable income is determined on a different basis and gives rise to both current and long-term deferred income taxes:

- (a) Current deferred income taxes (included with income taxes payable) result from the use of a method to record income from contracts for tax purposes different from that used for financial statement purposes.
- (b) Long-term deferred income taxes result primarily from claiming depreciation for tax purposes on plant and equipment in excess of amounts recorded in the accounts.

NOTE H — CAPITAL STOCK

Purchase Fund for Series A First Preference Shares, and Contributed Surplus: In accordance with the provisions attached to Series A First Preference Shares, a purchase fund to the maximum amount of \$50,000 has been established for the purpose of acquiring Series A Preference Shares for cancellation. During the year 595 preference shares were purchased at a cost of \$14,088 for cancellation. To date 5,170 preference shares with a par value of \$155,100 have been purchased, at a cost of \$120,439 and cancelled. The difference of \$34,661 has been credited to contributed surplus.

Stock Options: The Company has reserved 45,000 common shares to enable it to grant options at \$3.00 per share to such officers and full time key employees as the directors may determine from time to time. At August 31, 1979 no options had been granted.

NOTE I — SUBSEQUENT EVENT

On November 9, 1979, subsidiary Kenarin Steel Sales Corp. discontinued operations in its Niasco steel fabrication division. The accompanying financial statements include the following operating results of that division for the year ended August 31, 1979:

Net sales	<u>\$ 940,522</u>
Net loss	<u>\$ 267,526</u>

Management does not expect to incur a significant loss on the discontinuance of operations and accordingly have not made any provision for such loss.

NOTE J — GOVERNMENT GRANTS

In 1978, subsidiary Norforge Inc. completed the construction of a plant and the purchase of land and equipment for the Norforge production facility in Sept-Iles, Quebec. A development incentive grant under the Regional Development Incentive Act of the Dominion of Canada was authorized in the amount of \$467,250. \$373,800 of the grant was received during the year and the remaining \$93,450 is to be received by March, 1981.

In addition, during the year, Norforge Inc. received proceeds of \$200,000 from the Industrial Development Corporation of Quebec to underwrite the interest costs of loans obtained to finance the cost of the production facility. These proceeds have been credited against interest costs.

NOTE K — COMMITMENTS

The Companies have annual commitments amounting to approximately \$229,000 (1978 - \$310,000) for rentals of property, plant and equipment under leases varying terms up to five years.

The Companies have entered into several forward exchange contracts whereby they are committed to sell to their general bankers approximately U.S. \$13,420,000 between September 1, 1979 and May 31, 1980 at premium exchange rates varying between 13.23% and 17.54%.

NOTE L — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers (as defined by the Business Corporations Act of Ontario) amounted to \$296,995; (1978 - \$304,095).

NOTE M — PENSION PLANS

Contributions to pension plans covering most employees were charged to operations, including amortization of unfunded past service costs, which at August 31, 1979 amounted to approximately \$487,000. These past service costs are being amortized over periods from 10 to 15 years.

Niagara Structural Steel

Helping to build a strong future.

Steel Fabrication

Niagara Structural Steel (St. Catharines) Limited
St. Catharines, Ontario

Steel Construction

Niagara Structural Steel (St. Catharines) Limited
St. Catharines, Ontario

Steel Service Centres

Niagarasteel, St. Catharines, Ontario
Norsteel, Sept.-Iles, Quebec
Kenarin Steel Sales Corp., St. Catharines, Ontario
Kentom Steel, Orchard Park, New York

Steel Grinding Ball Mill

Norforge Inc., Sept.-Iles, Quebec

Computer Drafting

Compu-Draft
St. Catharines, Ontario